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SUBJECT: COMPACT INFRASTRUCTURE PROJECTS START IN THE FSM

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1.(U) Summary. Ground breaking ceremonies took place at three sites on Pohnpei, capital of the Federated States of Micronesia, where construction of schools will follow. These projects are funded under the Infrastructure Sector of the Amended Compact of Free Association. Startup of a main road in Chuuk State is expected to follow, along with other projects. However, selection of projects, contracting procedures, and equities among the four FSM states remain controversial. The FSM Congress passed a resolution in February 2009 to transfer the Project Management Unit, which oversees Compact infrastructure projects, out of the office of President Mori. End Summary.
POHNPEI HOSTS GROUND BREAKING CEREMONIES

12. (SBU) On March 9, Pohnpei State Governor John Ehsa hosted ground breaking ceremonies at Kolonia Elementary School and Pohnlangas High School, culminating over four years of efforts to start up Compact infrastructure projects in the capital state of the Federated States of Micronesia (FSM). At the ceremony, the Governor praised the unique bilateral cooperation embodied in the Compact. Privately, Pohnpeian officials remarked that mental exhaustion from protracted wrangling over these projects precluded jubilation. The FSM National Government's Project Management Unit (PMU), which is funded by the U.S. to oversee Compact infrastructure projects, neglected to invite the U.S. Embassy to the ceremonies. In a response to a last-minute invitation from the Governor's office, the Embassy's Department of the Interior (DOI) representative attended.

13. (U) A third ground breaking ceremony was held at the Nanpei Memorial High School in Nett Municipality on March 10. The Ambassador attended this event, having been invited by Governor Ehsa. (Note: The FSM Department of Foreign Affairs protested through the Vice President the poor handling of scheduling and invitations. The PMU neglected to invite other national officials, including the Secretary of Education.)

14. (U) The two-story buildings at each of the three Pohnpei sites will consist of eight classrooms and ancillary computer laboratories. The total Compact funding for these school projects is \$4.6 million. (Note: All figures are in U.S. Dollars.) In her remarks, Ambassador Hughes said, "The United States is pleased that vital infrastructure projects have begun to get underway." She reminded that the Compact is intended for the benefit of the people, and urged the Micronesians to "work together as much as possible and as transparently as possible to ensure that the Compact delivers results."

OTHER PROJECTS WILL FOLLOW

15. (U) Projects in the other three FSM states are expected to follow, starting with Phase One of three phases of the reconstruction of a main road in Weno, Chuuk State, at a cost of some \$26 million for the first phase. Ground breaking ceremonies have reportedly been delayed in Chuuk owing to the state government's preoccupation with vote counting for elections that took place March 3 and the alleged failure of the PMU to designate a construction manager for this major project.

16. (U) Yap State expects to get an early childhood education center and renovation of its hospital. However, Yapese

officials have complained that a last-minute change of plans mandated by the PMU and DOI's Office of Insular Affairs would eliminate a second floor from the education center, which was intended for teachers' offices and a conference room for activities such as teacher training, leaving only four classrooms on the ground floor. Yap representatives stated that the U.S. committed to a two-story structure as far back as 2005 when construction cost was estimated at \$1.8 million. The latest design would boost the cost to \$3 million, including both floors. Elimination of the second floor would cut costs back to \$1.8 million. Yap's Director of Education asserted that the full project was essential to accommodate a growing stream of children between the ages of 3 to 5, many of whom have migrated from neighboring islands owing to adverse climate conditions. The children are currently subject to double shifts in two overcrowded classrooms.

¶7. (SBU) Yap Governor Sebastian Anefal, who is a former Secretary of Foreign Affairs and an influential Compact negotiator, said PMU estimates for state hospital renovations had fluctuated wildly from an original cost of \$4.2 million to \$13 million, including elaborate landscaping, and finally \$8 million. He complained about impediments to communicating with the three-person PMU in the FSM capital of Palikir, remarking that he himself had urged that the PMU either get the price down or consider building an entirely new hospital. He complained that Yap, which has maintained a record of fiscally responsible governance, had been neglected in infrastructure and indeed short-changed. He had not expected Compact implementation to be quite so formidable, he said.

¶8. (SBU) In Kosrae State, construction of two elementary schools in Utwe and Lelu is under way at a total cost of over \$3.7 million. However, the PMU determined that faulty soil foundation surveys by the original design company GMP of Hawaii needed to be rectified. Consequent adjustments impeded progress

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and put both schools, which were scheduled for completion in December 2008, considerably behind schedule. GMP, which managed the original PMU that the FSM established, has filed counter-claims and threatened law suits on this and other projects, which could potentially impede infrastructure that is just getting started. GMP is reportedly pressing claims for \$2-3 million for work that the company alleges was performed but not compensated. It is unclear whether Compact money might be used to repay GMP.

INFRASTRUCTURE MANAGEMENT SPARKS CONTROVERSY

¶9. (SBU) As infrastructure finally gets moving, perceived favoritism of one state over another has generated palpable political tension. Reftel reported on a dispute over the appropriation of Compact Infrastructure Sector funds, which has exacerbated clashes between the President and the FSM Congress. At the same time, these disagreements have fueled a healthy assertion of democratic advocacy and demands for transparency. From the perspective of the four states and their Congressional representatives, decisions about Compact infrastructure projects often appear to be irrational, expensive and shrouded in secrecy. They are demanding more information, consultation, and responsiveness to the needs of their citizens. An overt dialogue is probably salutary and overdue, so long as it does not degenerate into destabilization that can be blamed on the Compact and its implementation.

¶10. (U) On February 7, 2009, the FSM Congress passed a resolution that calls upon President Mori to transfer the PMU from his office back to the Department of Transportation, Communication and Infrastructure (TC&I), where it was situated previously. The resolution states that the President transferred the PMU to his office without consultation with the Congress. Consequently, coordination supposedly faltered and the Congress no longer has oversight through its Committee on Transportation and Communication. Members of the FSM Congress have indicated that if the President fails to act upon this Congressional resolution, they will introduce legislation to mandate a transfer of the PMU back to TC&I and they will seek to fulfill a national plan to assign at least one TC&I coordinator to each state in order to facilitate infrastructure project coordination.

COMMENT

¶11. (SBU) Despite delays and complications, ground breaking ceremonies for buildings, roads and hospitals generate hope and excitement, particularly at the local level. The success of the infrastructure projects will bring credit to the intentions and friendship of the United States, as well as to the credibility of the Compact as a working bilateral instrument. Unfortunately, the capacity of the Micronesians to manage and implement such a load of projects remains extremely limited. Few engineers exist in the FSM, and the Micronesians lack contracting and accounting experience.

¶12. (SBU) Post recommends consideration of the assignment of a qualified American construction engineer and contractor - even on a TDY basis - to directly oversee management and accountability of a program that is expected to exceed \$125 million USD of our taxpayers' money. Such a manager, who could come from the U.S. Army Corps of Engineers or USAID, for example, might be covered by Compact infrastructure funds allocated to the FSMNG. President Obama's recent pledge to strengthen development, while cutting waste and reforming federal contracting, can be applied positively to our programs in the Federated States of Micronesia.

HUGHES